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Internal audit and oversight

Report on internal audit and investigations

Summary

The present report provides information on the activities of the Office of Audit and Investigations (OAI) for the year ended 31 December 2010. As requested by the Executive Board in decision 2010/22, this report contains information on (a) the adequacy of resources available for audit and investigations, and, in particular, on how appropriate and timely capacity for investigations is ensured; (b) a multi-year trend analysis of audit issues over a five-year period (2006-2010); and (c) the results of the follow-up efforts for implementing the 18-month-old recommendations. Furthermore, as noted in decision 2009/15, this report contains information on the analysis of findings from country office audits relating to programme and project management, including monitoring and evaluations. Also, as requested in decision 2006/13, the management response to this report is presented separately. In accordance with the approved oversight policy (DP/2008/16/Rev.1), the annual report of the Audit Advisory Committee is appended to this report.

Elements of a decision

The Executive Board may wish to: (a) take note of the present report; (b) express its continuing support for strengthening the internal audit and investigation functions of UNDP; (c) express its support for enhancing the investigative capacity of OAI through the provision of additional resources; and (d) take note of the annual report of the Audit Advisory Committee.

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Contents

Chapter		Page
Introduction		3
I.	Assurance in UNDP	3
II.	Disclosure of internal audit reports	5
III.	Risk-based audit planning	6
IV.	Staffing and budget	6
V.	Significant internal audit results	7
	A. Headquarters audits	7
	B. Inter-agency audits	8
	C. Country office audits	8
VI.	Audit ratings	11
VII.	Follow-up on audit recommendations	12
VIII.	Advisory services	13
IX.	Audits for the United Nations Development Fund for Women	13
X.	Review of audits of projects executed by non-governmental organizations and/or national governments	13
XI.	Investigations	16
XII.	Overall conclusion and framework for the future	20

Annexes (available on the Executive Board web page)

1. OAI Charter
2. Audit reports issued in 2010 pertaining to UNDP
3. Audit reports disclosed to Member States during 2010
4. High-priority recommendations unresolved for 18 months or more

Appendix (available on the Executive Board web page)

Annual report of the Audit Advisory Committee for the calendar year 2010

Introduction

1. The UNDP Office of Audit and Investigations (OAI) submits to the Executive Board its annual report on internal audit and investigation activities for the year ended 31 December 2010.

2. As requested by the Board in decision 2010/22, this report contains information on (a) the adequacy of resources available for audit and investigations, and, in particular, on how appropriate and timely capacity for investigations is ensured; (b) a multi-year trend analysis of audit issues over a five-year period (2006-2010); and (c) the results of the follow-up efforts for implementing the 18-month-old recommendations. Furthermore, as noted in decision 2009/15, this report contains information on the analysis of findings from country office audits relating to programme and project management, including monitoring and evaluations. Also, as requested in decision 2006/13, the management response to this report is presented separately. In accordance with the approved oversight policy (DP/2008/16/Rev.1), the annual report of the Audit Advisory Committee (AAC) is appended to this report.

I. Assurance in UNDP

Mandate of the Office of Audit and Investigations

3. The mission of OAI is to provide UNDP an effective system of independent and objective internal oversight designed to improve the effectiveness and efficiency of UNDP operations in achieving UNDP developmental goals and objectives. OAI carries out its mission through the provision of internal audit and related advisory services, and investigation services.

4. In accordance with the International Standards for the Professional Practice of Internal Auditing established by the Institute of Internal Auditors (IIA Standards), OAI hereby confirms to the Board that it has enjoyed organizational independence and that it has been free from interference in determining its audit scope, performing its work and communicating its results.

5. The charter of OAI, originally approved by the Administrator on 8 February 2008, has been updated and approved on 16 December 2010 upon endorsement by the AAC. The revision reflects, inter alia, the changes in IIA Standards effective 1 January 2011; the expanded mandate of the investigation function; the possibility of a one-time renewal of the Director's term of office and the authority to provide access to internal audit reports in accordance with the disclosure policy adopted by the Board. The revision also takes into consideration the tasks of reviewing and assessing audit reports of projects implemented by national governments or non-governmental organizations (NGO/NIM projects) and audit reports issued under the harmonized approach to cash transfers (HACT), as well as the provision of audit and investigation services to other organizations in the United Nations system on a cost-reimbursable basis (see Annex 1).

6. To ensure its effectiveness in carrying out its mandate, OAI implements a quality assurance and improvement programme on an ongoing and periodic basis. The programme involves internal and external quality assessments. In 2009, an independent validation process confirmed that OAI was in general conformance with the IIA Standards and Code of Ethics. Similarly, OAI was independently assessed to be in overall conformity with generally accepted principles and standards for investigations in international organizations. Another external quality assessment is expected in 2012.

7. Throughout the year, OAI received strong support from UNDP senior management. On two occasions, the OAI Director was invited to the Management Group meeting to discuss key audit and investigation issues, including resolution of long-outstanding audit recommendations. On a regular basis, the OAI Director participates, as an observer, in meetings of the Operations Group. This provides the Director an opportunity to raise control and accountability aspects in discussions on new policies.

Independent external oversight

8. The AAC, comprising five independent external experts, has continued to review the annual workplan, budget, quarterly progress reports and annual report of OAI, and has provided advice to promote the effectiveness of internal audit and investigation functions in UNDP.

9. The Board of Auditors monitored the implementation of its recommendations aimed at improving OAI operations. It continued to rely on the work of OAI, particularly on the due diligence review process for audits of NGO/NIM projects.

10. As part of its overall review of the audit function in the United Nations System, the Joint Inspection Unit (JIU) assessed the work of OAI and considered a number of its processes as "best practice" in the United Nations system. These processes included those pertaining to the disclosure of internal audit reports and the recommendations follow-up system (JIU/REP/2010/5).

Coordination within the United Nations system

11. OAI continued to liaise externally with its counterparts as this is an effective way of identifying and sharing best practices, discussing matters of common interest, and promoting cooperation with other audit and investigation services in the United Nations system and elsewhere. OAI actively participated in the forty-first meeting of the Representatives of Internal Audit Services of the United Nations Organizations, Multilateral Financial Institutions and Associated International Organizations (RIAS) in Geneva in September 2010. Among the topics discussed was the approach to auditing multi-donor trust funds and joint programmes. OAI committed to developing a concept paper for jointly auditing "Delivering as One" programmes. OAI also participated in the eleventh Conference of International Investigators held in Nairobi, Kenya in June 2010.

Basis for providing independent assurance to the Administrator

12. The workplan for 2010, which was approved by the Administrator on 22 December 2009 upon endorsement by the AAC, was based on the three-year OAI strategy (2009 to 2011), also earlier approved by the Administrator. This strategy outlined how OAI, in order to achieve the goal of providing assurance on UNDP governance, risk management and control systems, shall cover an appropriate mix of business units, functions and activities at the UNDP corporate, regional and country levels, including projects directly implemented by UNDP (DIM projects).

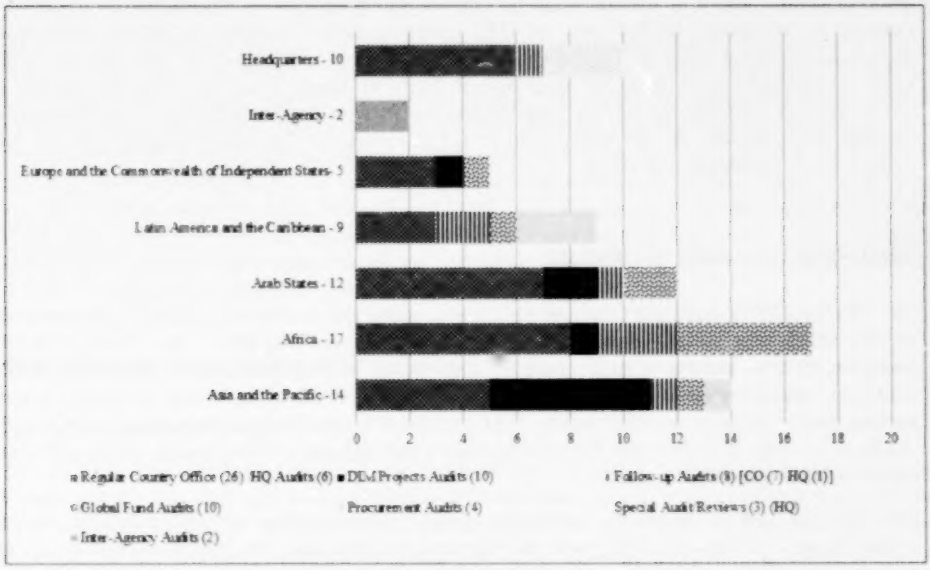
13. OAI thus issued 69 audit reports comprising 10 Headquarters audits, 57 country office audits and two inter-agency audits (see Annex 2).[1] The 10 Headquarters audit reports included two consolidated reports on audits of grants from The Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). The inter-agency audits referred to the consolidated report on the coordinated audits of the Common Humanitarian Fund for Sudan and the report on the joint audit of HACT in Viet Nam. The 57 country office audits consisted of 26 comprehensive office audits, 10 audits of directly implemented projects, 7 follow-up audits, 10 audits of Global Fund projects, and 4 audits focused on the procurement function at the country office level (see Figure 1).

14. Since most of the audit reports issued in 2010 covered operations and activities of UNDP offices during 2009, the audit outcomes generally reflect the status of operations in 2009. The 57 country office audits, as well as the audits of regional centres, accounted for about $1.6 billion (38 per cent) of the $4.2 billion in expenditures that UNDP incurred at the field level in 2009, as recorded in the UNDP enterprise resource planning system, Atlas. An additional $1.8 billion in expenditures were covered by audits of projects executed by non-governmental organizations and/or national governments (see Chapter X). Country office audits, Headquarters audits, and NGO/NIM audits thus represented a solid supplement to the other oversight mechanisms from which the Administrator and the Board can derive assurance on the efficient use of UNDP

[1] In total, OAI issued 75 audit reports, including six pertaining to the United Nations Development Fund for Women (see chapter IX of this report).

resources, and the effectiveness and adequacy of governance, risk management and internal control processes.

Figure 1. Number and type of audit reports issued in 2010



II. Disclosure of internal audit reports

15. In 2008 OAI established internal standard operating procedures stipulating the procedural steps required to ensure that any action taken by OAI when disclosing audit reports is in line with the UNDP oversight policy and the corresponding decision 2008/37. These procedures have been further refined in 2010 to ensure that disclosure requests are handled smoothly and effectively.

16. Since the adoption of the decision, a total of 44 reports have been disclosed. In 2010, in response to disclosure requests from the Governments of Cuba, France, Ireland, Sweden and the United States of America (three requests), access to 35 internal audit reports was granted (see Annex 3). In one case the report was withheld due to confidentiality reasons. All disclosures took place on OAI premises in New York and under conditions of confidentiality.

17. OAI, through the Board secretariat, informed the Board of all these requests immediately after receipt, and prior to any disclosure. Upon receipt of a request, OAI verified whether the reason and purpose for reviewing the report were adequately stated, and whether the request contained an explicit confirmation of the commitment to confidentiality. In addition, OAI informed the Governments concerned of the request through a letter addressed to the respective Permanent Representative to the United Nations. Governments were given adequate time to view and comment on the report. Almost 45 per cent of the Governments concerned availed themselves of the opportunity to read the report on OAI premises in New York. After viewing the report, no Government raised an objection to disclosing it to the requesting Government. In all instances, OAI kept the AAC fully informed during the periodic meetings with them.

18. As reported earlier, the lack of access of major donors, who are not Member States, to audit reports concerning projects or programmes funded by them, continues to be an issue. By decision 2010/22, the Board requested the Administrator of UNDP and the Executive Directors of UNFPA and UNOPS to submit a paper "outlining the implications of the emerging demand for greater information disclosure of internal audit reports, including options for responding to the need for relevant information." In the view of OAI, granting those institutional donors, who hold a significant financial stake in a given project, access to any audit report on that specific project, under conditions similar to those applicable to Member States, could be a suitable option that would balance institutional donors' information needs with the confidentiality requirements for internal audit reports. At the time of writing this report, UNDP was engaging with its sister agencies on a coordinated position.

III. Risk-based audit planning

19. The OAI 2010 audit plan remains risk based, using the country office audit-risk-assessment model, which was initially developed in 2005 and is annually updated and refined. For 2010, however, the total number of audits, both for country offices and Headquarters, was reduced. More resources were devoted to audits of high-risk DIM projects and to expanding the focus on cross-cutting themes in country office audits. OAI continued to coordinate its audits with the Board of Auditors in order to ensure that the combination of internal and external audits would sufficiently review UNDP operations overall.

20. Over the past five years, the risk-based cyclical audit-planning approach effectively covered all the country offices of UNDP, with the high-risk medium high-risk, medium low-risk and low-risk country offices audited at least every two, three, four and five years respectively. Furthermore, significant progress has been made in covering Headquarters units and corporate functions. OAI aims at a five-year audit cycle and expects that the major units and functions would have been substantially covered by OAI audits by the end of 2012.

IV. Staffing and budget

21. As of 31 December 2010, OAI had 67 approved posts, including three posts dedicated to the audit of Global Fund projects and one post funded by the United Nations Development Fund for Women (UNIFEM). Out of the 67 posts, 62 posts were encumbered, three posts (in the regional audit centres) were vacant and two posts (at Headquarters) were temporarily frozen due to budgetary constraints. On average, the vacant posts had remained so for seven months.

22. In 2010, OAI had an approved overall budget of $13.4 million, similar to the budget of the previous year. Of this amount $1.9 million (14.2 per cent) was for the investigation function. As during the previous year, approximately 80 per cent of the funding came from regular resources and the balance from other resources, including $0.8 million for UNIFEM and Global Fund audits (see Figure 2).

Figure 2. OAI resources level in 2010

	UNDP Audit	UNDP Investigations	Global Fund Audit	UNIFEM Audit	Directorate & Operations	Audit Advisory Committee	Total
Authorized posts	47*	9*	3	1	7	-	67
Budget in $ million	8.856	1.911	0.546	0.284	1.749	0.097	13.443

* Including one frozen post

23. Due to the increasing programme activities in Afghanistan, the current audit resources are no longer sufficient to ensure adequate audit coverage and to provide reasonable assurance on the use of funds for the Afghan programme. As a result of the discussion with senior management, two additional audit posts have been established effective 2011. This is to allow more dedicated and intensive audit coverage of the Afghan programme.

24. OAI has likewise brought to the attention of senior management that the investigation staffing levels are no longer sufficient to cope with a caseload that has been increasing in size and becoming more complex. Additional strategic changes, including an expansion of the scope of OAI investigations and the introduction of a vendor sanctions process, are likely to further widen the gap between investigation requirements and capacity. In response to its request, OAI has been provided with one-time additional funds for investigation consultants in 2010. These funds helped to reduce the number of open cases. In addition, a dedicated investigation position has been established, effective 2011, for cases related to Global Fund grants managed by UNDP. An overall longer-term solution is still under discussion with senior management, however. See section XI for a more comprehensive discussion on investigation resources.

V. Significant internal audit results

A. Headquarters audits

25. In 2010, OAI concluded the audits on the Bratislava Regional Centre, the Colombo Regional Centre and the Regional Bureau for Europe and the Commonwealth of Independent States, as well as concluding audits on liaison offices, global payroll, benefits and entitlements, safety and security, and the Common Humanitarian Fund for Sudan. OAI also concluded a follow-up audit on the United Nations Capital Development Fund. OAI also issued two consolidated reports on the various audits of Global Fund grants.

26. Significant results from the Headquarters audits are summarized as follows:

(a) *Regional Bureau for Europe and the Commonwealth of Independent States (audit rating: partially satisfactory).* Significant issues included a lack of: key elements (such as clear delegation of authority and accountability) to establish strong governance; cost-efficient and rationalized organizational structure; and detailed guidance for the "graduating countries". In addition the audit found inadequate programme management, with ever-changing outcomes, and no data-collection strategy. By 31 December 2010, 33 per cent of the 15 recommendations had been fully implemented.

(b) *Bratislava Regional Centre (audit rating: satisfactory).* Significant issues included the level of uncertainty concerning the forecast of extra budgetary resources for the Centre beyond 2011, as expenditures in the practice areas and for the country support team would be higher than income. Further, the data entered into the Service Tracker system, which is key to many of the Centre's planning, monitoring and reporting processes, were not sufficiently consistent or comprehensive. There was a lack of planning procedures for programmatic activities in countries where UNDP has no country office. This shortcoming was resulting in an insufficiently structured approach to the development needs of certain countries. By 31 December 2010, 91 per cent of the 11 recommendations had been fully implemented.

(c) *Colombo Regional Centre (audit rating: unsatisfactory).* Significant issues included: governance arrangements not effectively assisting in monitoring performance and ensuring accountability to the Centre's stakeholders; inadequate programme management, with the outcome boards, project boards and advisory panels not established or not functioning well; and weak controls over contracts of personnel. By 31 December 2010, 45 per cent of the 11 recommendations had been fully implemented.

(d) *Liaison offices (audit rating: satisfactory).* Significant issues included: inefficient and not rationalized organizational structures; insufficient monitoring and oversight by the Partnerships

Bureau to ensure adequate guidance and control of the Liaison Offices; and inadequate management of programme activities at the Hub for Innovative Partnership in Geneva. By 31 December 2010, none of the 24 recommendations had been fully implemented as the report had just been issued.

(e) *Global payroll benefits and entitlements (audit rating: partially satisfactory).* Significant issues included the lack of monitoring of staff benefits and entitlement eligibility, particularly for dependency-related allowances and home leave. Other concerns were the delay in posting and lack of reconciliation of the international professional and New York General Service staff payroll, as well as of country office payrolls, and the lack of clarity of policies and procedures, particularly with regard to home leave. By 31 December 2010, 68 per cent of the 19 recommendations had been fully implemented.

(f) *Safety and security function (audit rating: partially satisfactory).* Significant issues included a lack of clarity in roles and responsibilities in the discharge of the safety and security functions at various levels. Here concerns included the roles of the UNDP senior security manager and regional security advisors. In addition, weaknesses were found in the organizational structure and staffing, and safety and security management was not being mainstreamed in programmes and projects. By 31 December 2010, none of the 26 recommendations had been fully implemented as the report had just been issued.

(g) *Common Humanitarian Fund for Sudan (audit rating: partially satisfactory).* Significant issues included an inadequate legal framework for the UNDP management agent function, particularly for overseeing the programmatic activities of the non-governmental organization (NGO) partners. NGO audit procedures pertaining to submission of audit plans were found to be inadequate, as was the selection process for NGO auditors and the submission of audit reports to UNDP. Two issues noted were beyond the control of UNDP. These related to delays by participating organizations and NGOs in submitting their financial reports needed by UNDP to fulfill its roles as administrative agent and management agent. By 31 December 2010, 88 per cent of the eight recommendations had been fully implemented.

B. Inter-agency audits

27. In 2010 OAI issued two inter-agency audit reports as a result of joint or coordinated audit work among the internal audit services of several United Nations organizations.

(a) *Consolidated report on the coordinated audits of the Common Humanitarian Fund for Sudan.* Prepared and issued by OAI in its capacity as auditor of the administrative agent of the Fund, the report consolidated the audit findings from coordinated audits carried out by the participating organizations of the Fund (United Nations, Food and Agriculture Organization, International Organization for Migration, UNDP, United Nations Children's Fund, and World Food Programme). Significant issues included inadequate terms of reference, as they did not identify the complete management structure of the Fund and no separate terms of reference were developed for each of the Fund's management functions. Also found were an inadequate legal framework for the management agent function and insufficient capacity assessments of implementing partners.

(b) *Joint audit of HACT in Viet Nam.* The audit was carried out jointly by auditors from UNDP, United Nations Children's Fund (UNICEF) and UNFPA, under the leadership and coordination of the UNFPA Division of Oversight Services. The audit concluded that while three participating agencies had made considerable progress, the country programmes were not yet fully compliant with the HACT approach.

C. Country office audits

28. The internal audit of a country office generally covers activities related to governance and strategic management, United Nations system coordination (development activities, office of the Resident Coordinator, and the role of UNDP in the "One UN" approach. These internal audits also cover programme activities (programme management, partnerships and resource mobilization,

project management), as well as operations (human resources, finance, procurement, information and communications technology, general administration, and safety and security).

29. Part of the OAI strategy involves ensuring that internal audit work is aligned with organizational goals. To this effect, country office audits include cross-cutting themes (or thrust areas), which are reviewed extensively based on standardized audit procedures. The results of these reviews are consolidated and re-analysed from a corporate-level perspective. In 2010, the thrust areas were procurement, benefits and entitlements, donor relations, HACT, Institute for International Public Sector Accounting Standards (IPSAS) preparedness, and travel.

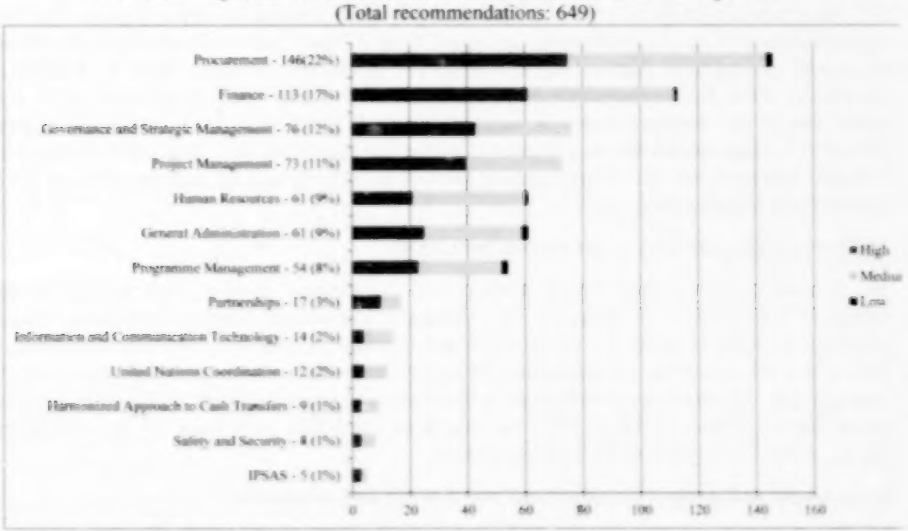
Key findings and recurrent audit issues

30. The 57 country office audit reports issued in 2010 contained 649 recommendations, of which 49 per cent were ranked high priority. This ranking meant that (i) action was considered imperative to ensure that UNDP was not exposed to high risks, and (ii) failure to take action could result in major consequences and issues.

31. Given that procurement was a thrust area in all the audits, it is not surprising that, with 22 per cent of the total, procurement accounted for a larger share of the recommendations than any other area. Next after procurement comes finance. Together, the areas of procurement, finance, and governance and strategic management accounted for more than half of all audit recommendations (see Figure 3). The fourth largest area was "project management", reflecting, inter alia, the focus of numerous Global Fund audits on issues of project management.

Figure 3. Distribution and prioritization of all country-office-based audit recommendations in 2010 reports

(Total recommendations: 649)



Procurement audits

32. There were four reports on the audit of the procurement function at UNDP country offices in Argentina, Pakistan, Paraguay and Peru. OAI generally reviewed the following areas: procurement authority, procurement training, bidding and evaluation process, procurement review committees, contract awards and management, vendor management, and special service agreements. One common issue noted in three of the four offices was the absence of a system for evaluating vendor performance, or the inadequacy of the existing system. Most other audit issues were found to be specific to the office and not pervasive.

Audit of projects financed by The Global Fund to Fight AIDS, Tuberculosis and Malaria

33. Projects financed by The Global Fund and managed by UNDP as principal recipient have received increasing audit attention since 2009. During 2009 four audit reports were issued (Angola, Democratic Republic of the Congo, Sudan North, and Sudan South). In 2010, an additional 10 reports were issued pertaining to Global Fund projects in the Central African Republic, Chad, Cuba, Democratic Republic of the Congo, Equatorial Guinea, Iran, Mauritania, Syrian Arab Republic, Tajikistan and the Programme of Assistance to the Palestinian People).

34. OAI also analysed the results of the various audits where UNDP country offices had the role of a Global Fund principal recipient. These audits are contained in eight reports issued from 2009 up until 30 June 2010. They cover 31 Global Fund projects with a combined expenditure volume of about $228 million. Two of those reports had an "unsatisfactory" rating, while the remaining six had been given the "partially satisfactory" rating. The key issues noted from the eight audit reports were: (i) inadequate project monitoring and evaluation, as evidenced by delayed progress reporting, non-validation of the sub-recipient data by the principal recipient, and inadequate site visits; (ii) poor stock management, as evidenced by unreliable drug-information systems, infrequent inventory checks and reconciliations, poor warehouse conditions, and discrepancies between physical stocks and stock records; (iii) inadequate monitoring of assets, as evidenced by incomplete recording of assets in Atlas, inaccurate inventories of assets, and unexplained discrepancies between physically counted and recorded assets; and (iv) lack of quality-control testing of drugs.

35. Except for United Nations agencies, organizations engaged as Global Fund sub-recipients are required to be audited by outside auditors pursuant to the UNDP procedures on audits of NGO/NIM projects. They are also required to submit audit reports to UNDP. An OAI analysis of 121 audit reports for fiscal year FY 2008 and FY 2009 showed an improvement. The share of expenditures without a qualification increased from 57 per cent to 79 per cent. Similarly, the amount of expenditures that was either qualified or disclaimed decreased from $3.8 million (or 5 per cent of the audited expenditures) in FY 2008 to $1.7 million (or 1.5 per cent) in FY 2009. In many cases, the auditors noted a lack of supporting documents or inadequate supporting documents. These problems were attributed to the sub-recipients' less than optimal capacities for financial management and record-keeping, as well as to their lack of understanding of UNDP or Global Fund requirements.

Audit of projects directly implemented by UNDP

36. Ten audit reports were issued dealing with 37 projects directly implemented by country offices in Afghanistan (16 projects), Fiji, Guinea (2 projects), Lebanon (5 projects), Pakistan (2 projects), Somalia (4 projects), Timor Leste and Ukraine (6 projects). Two common issues noted were a lack of supporting documentation for expenditures and procurement, and weak project asset management. The latter was evidenced by incomplete inventory records and insufficient proof of the physical existence of assets. This was due in turn to a lack of systems for physical inventory-taking, or the inadequacy of the existing systems.

Programme and project management, monitoring and evaluations

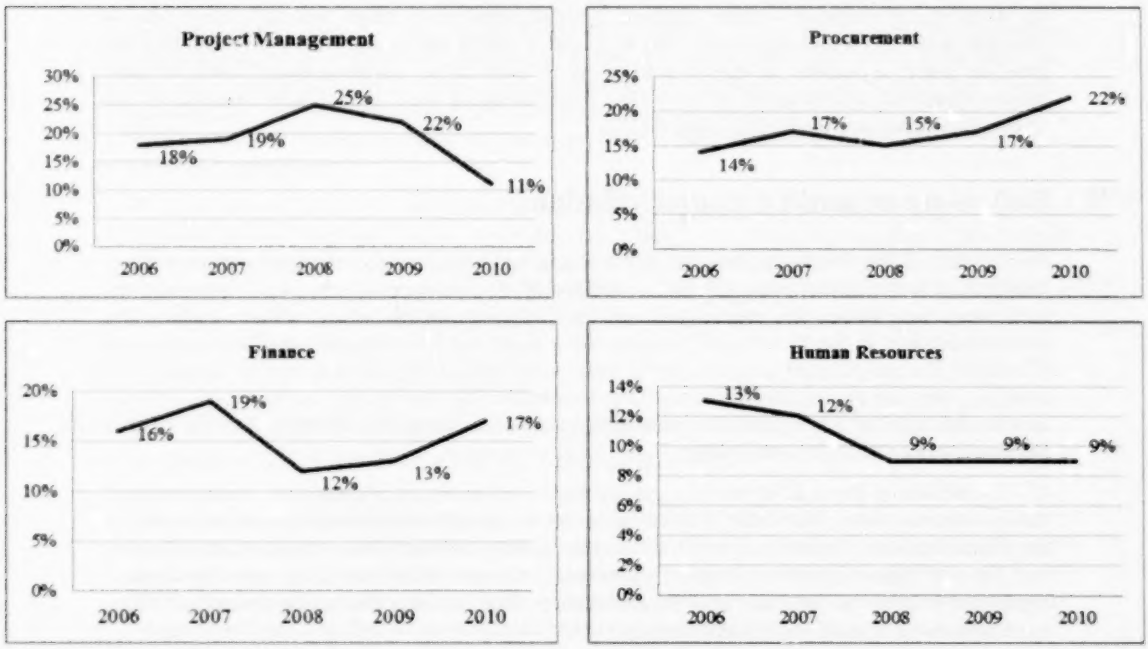
37. The Board, in its decision 2009/15, welcomed the efforts of UNDP management to address some systemic weaknesses in programme and project management, including monitoring and evaluation, and looked forward to seeing improvements in these areas, and requested that these be included in the current annual report. The OAI analysis of the audit issues noted in 2010 and 2009 reports showed that there indeed was an improvement: a substantial decrease in the number of issues in these areas. There are, however, issues worth mentioning, namely: delayed financial closing of operationally closed projects; lack of or inadequate reviews by the project appraisal committees; and poor communication with donors. The OAI review of the management action on the recommendations noted that procedures are being put in place to facilitate identification of closed projects and of their being closed out within the Atlas system. It was also noted that strict

reviews were being enforced for new projects; and there was improved donor management and enhanced staff awareness about business processes relating to donors.

Multi-year trends in audit issues

38. For the five-year period from 2006 to 2010, the majority of audit recommendations were in the areas of project management, procurement, finance and human resources. Taken together these comprised 63 per cent of the total of 4,060 recommendations. Looking more closely at these areas, the number of audit issues related to project management are now decreasing, procurement issues are on the increase, finance issues are fluctuating, and human resources issues stabilizing (see Figure 4). The increase in procurement issues is due more to the increased focus of OAI on this area. This is also the reason for the increasing number of audit issues in general administration, in light of the focus on travel. The same is true for the audit area of governance and strategic management. Hence, increasing numbers or percentages do not necessarily reflect deterioration in the functioning of internal controls in those areas.

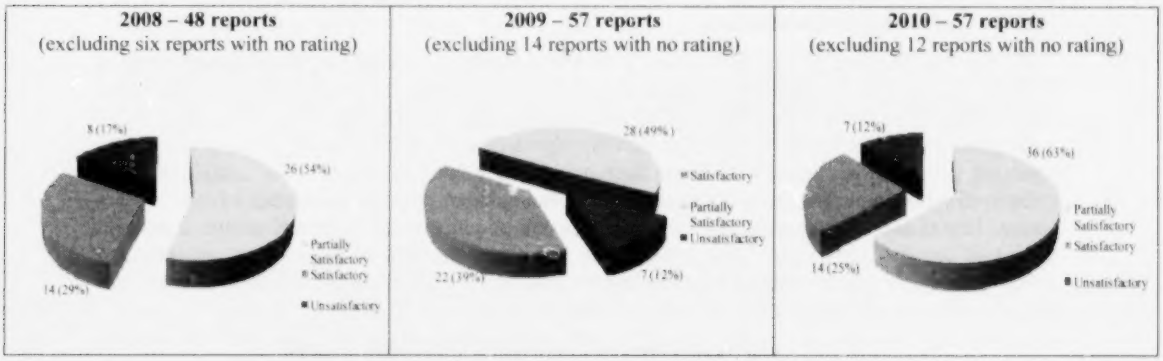
Figure 4. Trend of audit issues from 2006 to 2010
(based on percentage of total recommendations per year)



VI. Audit ratings

39. OAI generally assigns an overall audit rating, in terms of its assessment of governance, risk management and the internal-control processes. The exceptions are special audits, follow-up audits, and consolidated reports on thrust areas, as they are focused on specific areas with restricted audit objectives. Out of 69 reports, 12 did not contain ratings. Of the remaining 57 reports, 7 (or 12 per cent) contained an "unsatisfactory" rating. These were all country office audits. While the percentage of "unsatisfactory" ratings stayed at the same level as in 2009, the percentage of audits with "satisfactory" ratings decreased, from 39 per cent to 25 per cent (see Figure 5).

Figure 5. Number of audit reports issued from 2008 to 2010, by audit rating



40. OAI closely monitors country offices and Headquarters units rated "unsatisfactory". This is normally done by conducting on-site follow-up audits within one year after the conclusion of the previous audit, in addition to the on-going desk reviews of the implementation status of audit recommendations. Furthermore, in 2010 OAI began bringing these audits to the attention of the Operations Group and the Management Group.

VII. Follow-up on audit recommendations

41. In view of the continuing concern of the Board and UNDP senior management about long-outstanding recommendations, OAI further stepped up its follow-up efforts. Desk reviews of the implementation status are now done on an ongoing basis, when offices update the recommendations in the Web-based Comprehensive Audit and Recommendation Database System (CARDS). Recent enhancements to CARDS have made it easier for offices to provide updates. For example, they can upload relevant supporting documents. This has in turn facilitated independent assessments by OAI. Implementation rates are system generated and are automatically fed into the Balanced Score Card of country offices.

42. In addition to these desk reviews, on-site follow-up audits of offices with "unsatisfactory" ratings continue to be conducted. In 2010, eight follow-up audit reports were issued pertaining to the United Nations Capital Development Fund, six country offices (Chile, Guinea, Haiti, Malawi, Somalia and Uganda) and one project (Afghanistan). On-site follow-up audits generally showed significant progress of the office after the initial audit. This indicates that managements have been more responsive to audit recommendations.

43. The year 2010 also witnessed much closer monitoring by senior management. Recommendations that were 18 months old or older were discussed intensively by both the Operation Group and the Management Group. With these concerted efforts, at the end of 2010 only 41 recommendations remained to be fully implemented. This was as compared to 56 at the end of last year (see Annex 4). Of the 41, 56 per cent were ranked high priority at the time of the audit. Of the 41 recommendations, eight pertained to reports issued three years ago and beyond, with six of the eight more than five years old. Several recommendations related to Atlas are expected to be fully addressed with the forthcoming implementation of the International Public Sector Accounting Standards.

44. The comparison with last year's status shows a substantial overall improvement. In most cases, additional efforts by the offices concerned and shifting of priorities internally could bring these recommendations to full implementation. In 12 cases, representing 29 per cent of the

outstanding recommendations, the implementation depends, however, on the assistance or cooperation of parties outside UNDP (host governments, other United Nations organizations).

VIII. Advisory services

45. OAI continued to advise all levels of UNDP management at Headquarters, regional centres and country offices. For example, it reviewed and advised management on audit and investigation clauses in agreements, such as multi-donor agreements, cost-sharing agreements, letters of agreement, and letters of understanding between UNDP and development partners.

IX. Audits for the United Nations Development Fund for Women

46. With the UNIFEM-funded auditor on board since August 2009, more audits of UNIFEM activities were done in 2010. Namely, audits were done of the subregional offices for: the Southern Cone, West Africa, the Pacific, Southern Africa and the Indian Ocean States, the Arab States and Mexico, Central America, Cuba and the Dominican Republic. These offices recorded programme and management expenditures totaling $62.4 million. The audits reviewed areas of governance and strategic management, programme activities (programme management, partnership and resource mobilization, and project management) and operations (human resources, finance, procurement, information and communications technology, general administration, and UNDP support to UNIFEM operations).

47. The General Assembly established a new United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) effective 1 July 2010. The entity absorbed UNIFEM and other existing entities, with transition arrangements until the end of 2010. While the future internal audit and investigation arrangements for UN-Women have yet to be decided, OAI has agreed, at the request of the Executive Director of UN-Women, to provide services throughout 2011 on a cost-reimbursement basis.

X. Review of audits of projects executed by non-governmental organizations and/or national governments

48. As a result of its audit risk assessment, more than 1,700 NGO/NIM projects were selected to be audited in 2010 by audit firms or national audit institutions. OAI received a total of 1,705 audit reports from 122 country offices covering 1,442 awards and $1.8 billion of expenditures for FY 2009. Those audits covered 82 per cent of total expenditures incurred for NGO/NIM projects, which constituted a further increase in audit coverage (see Figure 6).

Figure 6. Comparison of audit coverage from FY 2006 to FY 2009

	FY2006	FY2007	FY2008	FY2009
Planned awards	1,869	1,765	1,564	1,455
Planned audit coverage ($ billions)	2.1	2.0	1.8	1.8
Total NGO/NIM expend. ($ billions)	2.4	2.4	2.3	2.2
Audit coverage in %	88%	83%	78%	82%

49. Compared to previous years, the timeliness of audit reports has further improved, due to concerted efforts by OAI, the Office of Finance and Administration, and the country offices concerned. As of 30 June 2010, 95 per cent of the NGO/NIM audit reports were received, versus 93 per cent at the same time in previous year (see Figure 7).

Figure 7. Comparison of submission rate from FY 2006 to FY 2009

	FY2006 as of 30 June 2007	FY2007 as of 30 June 2008	FY2008 as of 30 June 2009	FY2009 as of 30 June 2010
Audits planned by number of awards	1,869	1,765	1,564	1,455
Audit reports received by number of awards	1,489	1,507	1,458	1,388
Reports received versus audits planned	80%	85%	93%	95%

OAI review results

50. The OAI review of NGO/NIM audit reports covers four aspects: (a) *audit opinion and net financial impact*, whereby OAI measures the net financial impact of audit qualifications as a percentage of the reported project expenditure; (b) *audit outcome*, whereby OAI reviews the audit findings and measures the corresponding risks on the overall project implementation; (c) *audit scope*, whereby OAI reviews the adequacy of audit coverage vis-à-vis the required audit terms of reference; and (d) *audit administration*, whereby OAI reviews how the audit was efficiently and effectively administered by the country office.

51. OAI rated the quality of these reports to be "satisfactory" for the majority of country offices. Only about 10 per cent of the reports were of "unsatisfactory quality" (see Figure 8). The review results are summarized in "review letters" sent to the country offices, highlighting shortcomings and drawing attention to areas requiring immediate action. These letters also serve as guide for offices in selecting their audit firms in the future and as a reminder that audit terms of reference should be strictly complied with. At 31 December 2010, review letters were issued for 120 (96 per cent) out of the 125 offices. Five review letters could not be issued due to late completion of audits (Myanmar, Panama, Programme of Assistance to the Palestinian People, Somalia and Sudan). These cases were brought to the attention of senior management.

Figure 8. Results of OAI assessment of the quality of NGO/NIM audit reports

	Rating of NGO/NM Audit Scope			
	FY2008		FY2009	
	Number of countries	%	Number of countries	%
Satisfactory	82	66%	77	63%
Partially Satisfactory	31	25%	32	26%
Unsatisfactory	12	9%	13	11%
Total countries:	**125**		**122**	

Key NGO/NIM audit issues and actions taken thereon

52. Of the 1,705 audit reports received, 840 reports were reviewed in depth. These 840 reports represented $1.4 billion (78 per cent) of the audited expenditures and contained 2,835 audit issues. The majority (73 per cent) of the issues was assessed to be of "medium" priority; 61 per cent pertained to financial management and record-keeping systems and controls. A trend analysis over

the last four audit cycles shows a slight increase in audit issues in the area of financial management and quite a substantial decrease in audit issues in the area of record-keeping systems and controls. This indicates a need to improve more in the area of financial management.

53. OAI also monitors the actions that country offices plan and implement to address the audit observations. Of the 2,835 audit issues, 82 per cent were fully addressed in country-office plans. Overall, there has been a significant improvement in the actions planned or taken to address audit issues for FY 2009 audits as compared to the previous years.

Audit opinions and net financial impact

54. The NGO/NIM auditors found the project financial expenditures to be presented fairly, as evidenced by the "unqualified" opinion in respect to $1.3 billion (72 per cent) of the total $1.8 billion of audited expenditures. OAI analysed the reports with "qualified" or "adverse" opinions or with a "disclaimer", and quantified the net financial impact of audit qualifications to be $27.9 million, equivalent to 1.6 per cent of the total expenditures. This is a deterioration compared to last year, for which the total was $9.5 million or 0.5 per cent.

55. The audit qualifications in one country office (Panama) accounted for 62 per cent of the total net financial impact this year. The reason for the qualification was the non-availability of documentation supporting the receipt of equipment collectively worth $16.9 million. This equipment was also not physically verifiable.

56. Some country offices have had recurring qualifications over the past three years from 2007 to 2009. OAI brought these cases to the attention of senior management, and the Office of Finance and Administration, together with the regional bureaux concerned, is following up with the country offices concerned to achieve a better performance in the future.

Harmonized approach to cash transfers

57. OAI reviewed the documentation submitted by country offices planning to move from the NGO/NIM audit regime to the one applicable under HACT, and concluded that five country offices followed the HACT audit regime (Bhutan, Cape Verde, Indonesia, Morocco, Tanzania). The number of country offices switching from the NGO/NIM audit regime to the HACT audit approach is expected to increase in the coming years as more offices become fully HACT-compliant. NGO/NIM audits are project-based and, as financial audits, provide assurance on the financial expenditures incurred by the project. HACT audits are organization-based and, as system audits, provide assurance on the overall systems and controls of the implementing partner concerned. HACT audits build on macro- and micro-assessment of the working environment of an implementing partner, as well as on a number of monitoring activities undertaken during a project life cycle.

58. Due to the growing importance of HACT, and since its scope of application covers more than one organization, OAI agreed on a framework for cooperation with other United Nations organizations (UNFPA, UNICEF, World Food Programme) in auditing HACT implementation at the country level. This framework also includes coordination and sharing of information, audit approach and scope. Based on this framework, UNDP, UNFPA and UNICEF conducted a joint audit of HACT implementation in Viet Nam in November 2009 and in Malawi in February 2010. The final reports for both Viet Nam and Malawi were issued jointly by the internal audit services involved. Additional joint reviews of HACT implementation and of the HACT policy framework are planned for 2011.

XI. Investigations

59. OAI experienced a further increase in its case load in 2010, receiving 215 complaints. Together with 110 open cases carried over from 2009, this constituted a total caseload of 325 in 2010. Of these 325 cases, 132 (41 per cent) were closed after a preliminary assessment determined that no investigation was warranted. Eighteen cases were referred to other offices within UNDP, and 16 cases were referred to other organizations. Sixty cases (18 per cent) were closed after full investigation. Thirty six (or 60 per cent) of the cases investigated resulted in an investigation report, establishing evidence of misconduct. At year end, 76 cases were still undergoing preliminary assessment, while 23 cases were undergoing investigation. OAI was able to reduce its open caseload despite the 8 per cent increase in new complaints received (see Figure 9).

Figure 9. Processing of complaints in 2010

Case Load	
Carry-over as of 1 January 2010	**110**
Intake during the year	215
Total cases during the year	**325**
Closed (from cases carried over)	(102)
Closed (from intake)	**(124)**
Total closed	**226**
Carried forward as of 31 December 2010	**99**

Total complaints closed during the year 2010	**226**
After preliminary assessment	
- Closed, investigation not warranted	132
- Referred to other offices within UNDP	18
- Referred to other organizations	16
After investigation	
- Closed (not substantiated)	16
- Submitted to Legal Support Office	36
- Submitted to Ethics Office (retaliation cases)	3
- Management letter issued[2]	8

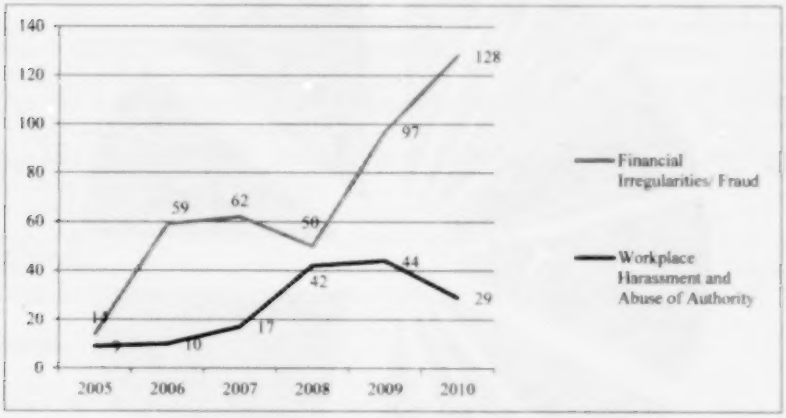
60. When an investigation substantiates allegations of fraud or other misconduct, OAI refers the case to the Legal Support Office for consideration of disciplinary or administrative action against the staff or other personnel involved and for recovery of funds or assets. Cases involving potentially criminal misconduct may also be referred to national law enforcement authorities for criminal investigation and prosecution, along with recovery of funds through criminal restitution. When the matter involves fraud and corrupt practices by vendors, OAI refers it to the Procurement Support Office for consideration of debarment of the vendor. When an investigation reveals weaknesses in internal controls, OAI issues a management letter to the office concerned, recommending how to strengthen controls. Figure 9 shows how the complaints were closed in 2010.

[2] In some cases, both a management letter and an investigation report were issued.

Types of complaints and multi-year trend analysis

61. An analysis of complaints by type of misconduct alleged demonstrates a rise in the number of cases related to fraud and other financial irregularities, and a decline in the number of abuse of authority and workplace-harassment complaints (see Figure 10).

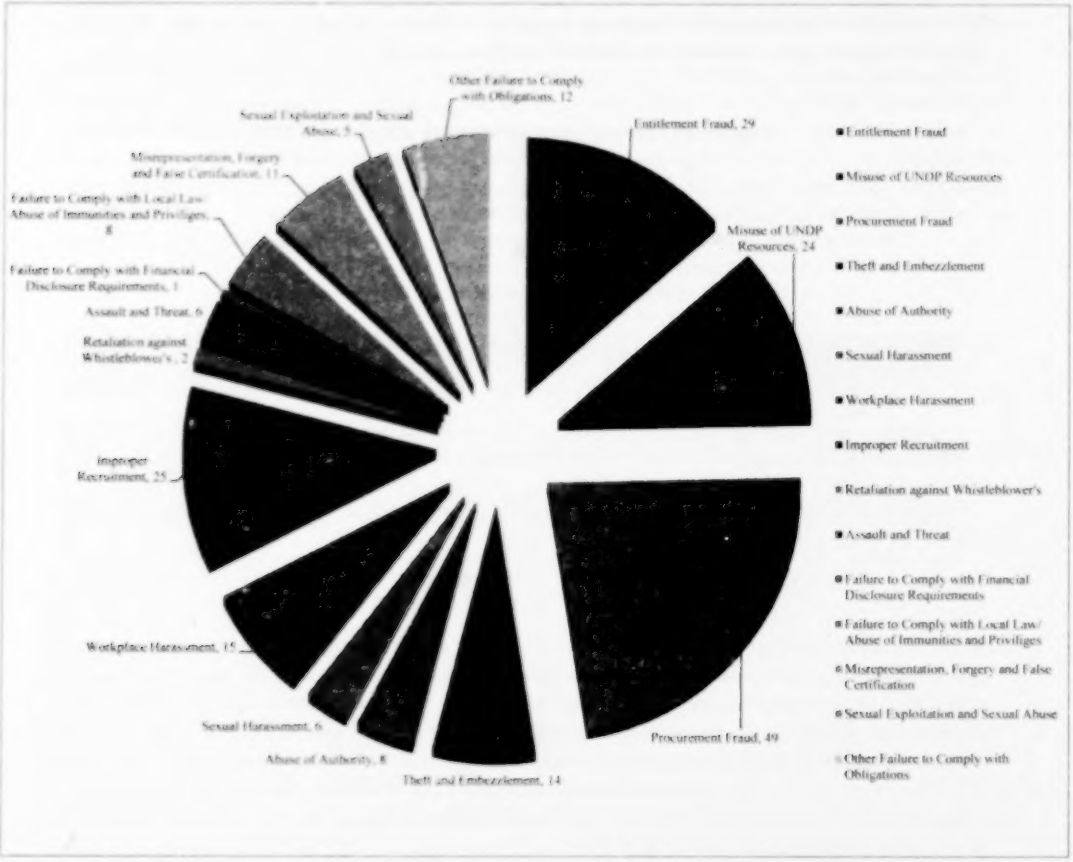
Figure 10. Trends of complaints received from 2005 to 2010
(based on per cent of yearly complaint totals)



62. Complaints relating to financial irregularities, such as procurement fraud, theft, embezzlement and entitlements fraud, continued to be the largest category, constituting 60 per cent of the total number of cases handled in 2010. Allegations of procurement fraud constituted the largest type of financial irregularity, with an increase of almost 60 per cent as compared to 2009. Fraud and other financial irregularities are generally at the more complex end of the investigation scale and require a higher level of staffing and resources. Allegations of workplace harassment and abuse of authority (29 cases or 13 per cent) were the second largest category, but it is important to note that these cases declined significantly in 2010.

63. Allegations of improper recruitment and other staffing decisions comprised the next largest category in 2010 (25 complaints or 12 per cent). This level was similar to that of 2009, when such allegations constituted 11 per cent of the total number of complaints. Allegations of retaliation against whistleblowers, which are investigated after a determination by the Ethics Office that there is a prima facie case, constituted only 1 per cent of the complaints received in 2010. This is slightly less than in 2009, when such allegations constituted 2 per cent of the total. Other categories (including failure to comply with local laws, abuse of privileges and immunities, assaults and threats) constituted the remaining 14 per cent of complaints in 2010 (see Figure 11).

Figure 11. Types of complaints received in 2010


Other Failure to Comply with Obligations, 12
Sexual Exploitation and Sexual Abuse, 5
Entitlement Fraud, 29
Misrepresentation, Forgery and False Certification, 11
Failure to Comply with Local Law: Abuse of Immunities and Privileges, 8
Misuse of UNDP Resources, 24
Failure to Comply with Financial Disclosure Requirements, 1
Assault and Threat, 6
Retaliation against Whistleblower's, 2
Improper Recruitment, 25
Workplace Harassment, 15
Sexual Harassment, 6
Abuse of Authority, 8
Theft and Embezzlement, 14
Procurement Fraud, 49
Entitlement Fraud
Misuse of UNDP Resources
Procurement Fraud
Theft and Embezzlement
Abuse of Authority
Sexual Harassment
Workplace Harassment
Improper Recruitment
Retaliation against Whistleblower's
Assault and Threat
Failure to Comply with Financial Disclosure Requirements
Failure to Comply with Local Law/ Abuse of Immunities and Privileges
Misrepresentation, Forgery and False Certification
Sexual Exploitation and Sexual Abuse
Other Failure to Comply with Obligations

Investigation capacity development

64. In 2010, OAI focused on improving its practices and procedures in order to improve the quality and timeliness of its investigation function. In particular, OAI implemented new assessment procedures for complaints. As a result, the average time required to complete a preliminary assessment has been significantly reduced. The following improvement projects were initiated during the year:

(a) *Enhanced information technology (IT) forensic capacity.* Effective investigations are increasingly reliant on the technical ability and equipment required to extract from computer systems, storage devices, personal digital assistants (PDAs) and other electronic devices evidence that would otherwise not be available. This project includes additional training for staff and use of new computer forensic tools.

(b) *More effective case-management system.* A new case-management system, designed to become operational in early 2011, will allow OAI to document investigations more comprehensively. This will allow OAI to respond to the increased rigor to which cases may be exposed as a result of the creation of the United Nations Dispute Tribunal. It will also strengthen the analytical and reporting capacity of OAI, improving quality-based reporting on trends, as well as reporting to senior management, the AAC and the Board on lessons learned from investigations.

(c) *Improved quality of investigation reports.* OAI has strengthened its quality assurance process for all investigation-related reports so as to enhance reliance on the results of investigations as the basis for any proposed disciplinary action, financial recovery, or other management or administrative action.

(d) *Expanded scope of investigations.* OAI investigations now include allegations against parties external to UNDP of significant financial irregularities which may have financial implications for UNDP. The expanded scope requires a review of the existing policy framework, investigation guidelines, equipment and training to enable such investigations to be effectively undertaken.

(e) *Proactive investigations.* As opposed to investigations into allegations of wrongdoing, proactive investigations use intelligence analysis to identify areas where OAI could conduct investigations. This includes reviewing "red flag" indicators from current and past cases, along with open-source information and information from investigation services of bilateral aid agencies and of other international organizations, including multilateral development banks.

(f) *Improved security of information.* Additional safeguards are being put into place to mitigate reputational and other risks associated with the handling of sensitive investigation-related information stored within OAI.

(g) *More effective hotline reporting system.* A new reporting system, designed to become operational in early 2011, will ensure greater reach into countries where UNDP funds or manages programmes. The system includes multi-language Web-reporting, toll-free telephone reporting and enhanced anonymous reporting functionalities.

Joint anti-fraud efforts

65. OAI also increased its efforts to collaborate with the fraud investigation offices of other international and national agencies so as to enable better fraud identification and to work collaboratively on cases of possible common interest. Consistent with General Assembly resolution 62/63 on the "Criminal accountability of United Nations officials and experts on mission", OAI engaged with law enforcement and prosecutorial agencies in a number of countries to discuss the modalities of referring cases for in-country criminal investigation and of exchanging relevant information.

66. OAI also actively fostered cooperation among the investigation services of the United Nations system and arranged, together with its counterparts in the Food and Agriculture Organization and World Food Programme, a United Nations system-wide training for investigators. The Office of the Inspector General of the Global Fund has been approached regarding a cooperation agreement on the detection and investigation of fraud and corruption.

67. Together with the Bureau of Management and the Ethics Office, OAI contributed to a new UNDP policy on fraud and other corrupt practices. The new policy aims to raise staff awareness of fraud prevention measures, of their obligation to report allegations of fraud and corruption, and of likely sanctions in case fraud and corruption are detected.

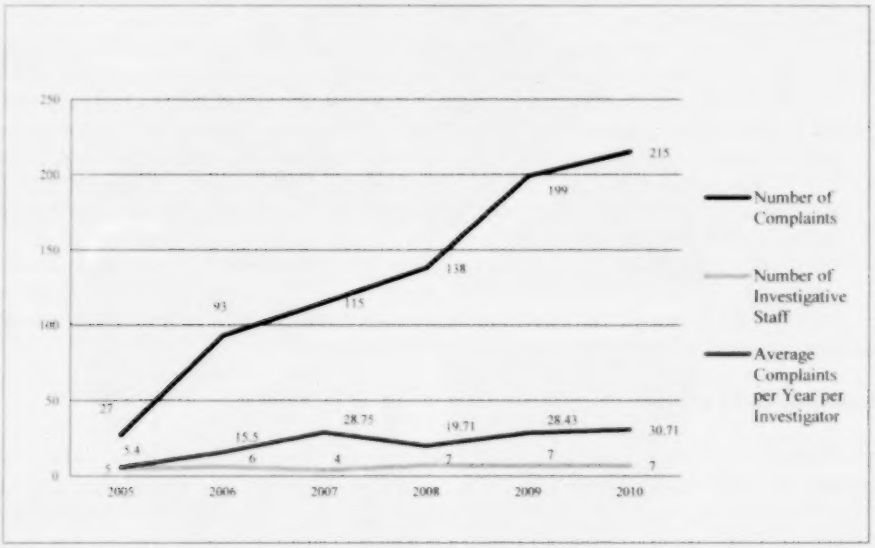
Projected future caseload and resources (supplementing section IV on staffing and budget)

68. There are no indications that the high caseload experienced in 2010 will decline in 2011. On the contrary, the case load is likely to increase due to: (i) the aforementioned expanded scope of OAI investigations; (ii) senior management's initiative to increase awareness of sexual exploitation and sexual abuse; (iii) the introduction of a vendor sanctions and debarment process in 2011; and (iv) the United Nations Department of Safety and Security disbanding its Internal Affairs Unit in 2010, which used to provide significant assistance in investigating allegations against Department of Safety and Security staff holding UNDP letters of appointment.

69. The increase in the number of allegations received has so far not been matched with increased resources (see Figure 12). While the investigation caseload has dramatically increased — by more than 50 per cent since 2008 — the OAI investigation staffing levels remain unchanged. With the

increase in allegations, the average case load per staff member rose from 20 cases in 2008 to more than 38 cases as of November 2010. Given the continual increase in complaints since a dedicated investigation function was established in 2004, the high average case load is expected to continue in 2011.

Figure 12. Number of investigative staff handling investigations and assessments from 2005 to 2010



70. With seven professional investigators (not including the Deputy Director) for an organization that has more than 15,000 personnel (some 8,500 staff members, 5,000 service contract holders and 2,400 United Nations Volunteers) and more than 18,000 special service agreement holders, the current staffing level of the OAI investigations function falls significantly short of the benchmarks established by JIU.

71. Until additional resources become available, OAI will continue to focus on the high-priority cases, where the risks are most significant. Medium-priority cases are addressed as resources allow. This may lead to a delay in the finalization of these cases. Low-priority cases may not be investigated at all. While this approach makes the best use of the limited resources of OAI, it implies that OAI will not be in a position to ensure that all complaints warranting an investigation will be investigated. This exposes UNDP to legal, financial and reputational risks. As an interim measure, OAI has reassigned one Audit Specialist, who used to be a forensic auditor and fraud examiner, to its Investigations Section. While this strengthens OAI capacity to deal with complex fraud cases, it inevitably reduces OAI audit coverage of Headquarters and corporate audit areas.

XII. Overall conclusion and framework for the future

72. The results of the various audits of offices, functions and projects, with 88 per cent rated as "satisfactory" or "partially satisfactory", indicate to the Administrator and to the Board that, on the whole, governance, risk-management and internal-control processes in UNDP are functioning well. Managers are also increasingly prepared to address the issues identified by OAI audits, as demonstrated by the overall implementation of audit recommendations.

73. OAI is facing varied challenges in 2011, such as the expected significant decrease in UNDP core resources; the substantial increase in voluntary contributions for certain high-risk programmes; the growing need for an audit of Delivering as One and other joint United Nations activities in which UNDP plays a major coordinating and managing role; and the need to better protect development funds from fraud and corruption and to address allegations of wrongdoing more swiftly. All these require an appropriate OAI strategy as well as put a strain on the limited resources of the OAI. Nonetheless, to respond to emerging risks and changing priorities, the OAI workplan remains flexible and adaptable in providing UNDP with an effective system of independent and objective internal oversight to assist the organization in achieving its goals and objectives.